# AMERICAN VANADIUM CORP.

## CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

## AS AT AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

**Management's Comments on Unaudited Financial Statements**

The accompanying unaudited condensed consolidated interim financial statements of American Vanadium Corp. (the "Company") as at and for the nine months ended September 30, 2016 have been prepared by management and approved by the Board of Directors of the Company. These financial statements have not been reviewed by the Company's external auditors.

**AMERICAN VANADIUM CORP.**
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS (UNAUDITED)
IN CANADIAN DOLLARS

| | **September 30 2016** | December 31 2015 |
|---|---|---|
| | **$** | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash | **97,729** | 180,076 |
| Amounts receivable | **6,417** | 3,240 |
| Prepaid expenses (Note 4) | **-** | 6,417 |
| Total current assets | **104,146** | 189,733 |
| Reclamation deposit | **40,761** | 37,385 |
| Mineral properties (Note 6) | **1** | 1 |
| **Total assets** | **144,908** | 227,119 |
| | | |
| **LIABILITIES AND SHAREHOLDERS' DEFICIENCY** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities (Notes 5 and 9) | **5,385,181** | 5,334,451 |
| Asset retirement obligation (Note 6) | **91,819** | - |
| Shareholder loan (Note 7) | **201,595** | 200,000 |
| **Total liabilities** | **5,678,595** | 5,534,451 |
| **Shareholders' deficiency** | | |
| Share capital (Note 8) | **30,478,198** | 30,398,693 |
| Subscription receipts (Note 8) | **-** | 64,427 |
| Equity reserves | **3,905,996** | 3,905,391 |
| Deficit | **(39,917,881)** | (39,675,843) |
| **Total shareholders’ deficiency** | **(5,533,687)** | (5,307,332) |
| **Total liabilities and shareholders’ deficiency** | **144,908** | 227,119 |

**Basis of presentation and continuance of operations (Note 2)**

**On behalf of the Board:**

*Signed: “William Radvak”* Director

*Signed: “Brian E. Bayley”* Director

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

IN CANADIAN DOLLARS

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| **Exploration and evaluation expenses** (Note 6) | **(19,440)** | (50,532) | **(14,677)** | (299,269) |
| **General and administrative expenses (recoveries):** | | | | |
| Salaries and benefits (Note 9) | **50,000** | 67,848 | **150,287** | 317,911 |
| Transfer agent, listing and filing fees | **8,229** | 20,190 | **20,930** | 43,363 |
| Office facilities and administrative services (Note 9) | **4,899** | (35,214) | **44,223** | 46,329 |
| Consulting | **2,500** | 8,480 | **90,544** | 112,517 |
| Office and sundry | **1,667** | 5,633 | **10,790** | 57,180 |
| Audit and legal | **1,616** | 1,163 | **31,991** | 12,157 |
| Travel | **806** | 6,200 | **6,114** | 15,262 |
| Interest on shareholder loan (Note 7) | **505** | - | **1,595** | - |
| Investor relations and shareholder information | **285** | 296 | **9,112** | 14,028 |
| CellCube shipping and storage (Note 5) | **(718)** | - | **41,046** | - |
| Stock-based compensation (Note 8) | **-** | 8,003 | **605** | (31,408) |
| Amortization | **-** | 14,663 | **-** | 24,362 |
| **Total general and administrative expenses** | **(69,789)** | (97,262) | **(407,237)** | (611,701) |
| Foreign exchange (loss) gain | **(94,725)** | (36,143) | **145,301** | (91,813) |
| Interest income | **23** | 5 | **194** | 108 |
| Gain on write-off of accounts payable and accrued liabilities | **-** | - | **34,381** | - |
| Impairment of CellCube units (Note 5) | **-** | (2,468,709) | **-** | (2,468,709) |
| Gain on sale of equipment | **-** | - | **-** | 19,313 |
| **Net comprehensive loss** | **(183,931)** | (2,652,641) | **(242,038)** | (3,452,071) |
| **Basic and diluted loss share** (Note 12) | **(0.00)** | (0.04) | **(0.00)** | (0.05) |

**AMERICAN VANADIUM CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' (DEFICIENCY) EQUITY (UNAUDITED)
IN CANADIAN DOLLARS

| | Share Capital | Subscription Receipts | Equity Reserves | Deficit | Total |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Balance, December 31, 2014 | 30,100,545 | - | 3,939,532 | (35,803,390) | (1,763,313) |
| Private placements, net of share issuance costs | 202,100 | - | 245 | - | 202,345 |
| Shares issued for settlement of accounts payable | 93,648 | - | - | - | 93,648 |
| Shares issued on termination of consulting contract | 2,400 | - | - | - | 2,400 |
| Stock-based compensation | - | - | (31,408) | - | (31,408) |
| Net comprehensive loss for the period | - | - | - | (3,452,071) | (3,452,071) |
| Balance, September 30, 2015 | 30,398,693 | - | 3,908,369 | (39,255,461) | (4,948,399) |
| Private placements, net of share issuance costs | - | - | - | - | - |
| Funds received for shares issued subsequent to year end | - | 64,427 | - | - | 64,427 |
| Stock-based compensation | - | - | (2,978) | - | (2,978) |
| Net comprehensive loss for the period | - | - | - | (420,382) | (420,382) |
| Balance, December 31, 2015 | 30,398,693 | 64,427 | 3,905,391 | (39,675,843) | (5,307,332) |
| Private placements, net of share issuance costs | 63,505 | (64,427) | - | - | (922) |
| Shares issued pursuant to consulting agreement | 16,000 | - | - | - | 16,000 |
| Stock-based compensation | - | - | 605 | - | 605 |
| Net comprehensive loss for the period | - | - | - | (242,038) | (242,038) |
| **Balance, September 30, 2016** | **30,478,198** | **-** | **3,905,996** | **(39,917,881)** | **(5,533,687)** |

**AMERICAN VANADIUM CORP.**
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
IN CANADIAN DOLLARS

| | **Nine Months Ended September 30 2016** | Nine Months Ended September 30 2015 |
|---|---|---|
| | **$** | $ |
| **CASH FLOWS (USED IN) FROM OPERATING ACTIVITIES** | | |
| Net comprehensive loss | **(242,038)** | (3,452,071) |
| Items not involving cash: | | |
| Foreign exchange (gain) loss | **(145,302)** | 82,302 |
| Gain on write-off of accounts payable and accrued liabilities | **(34,381)** | - |
| Consulting expense settled by issuance of shares | **16,000** | - |
| Accrued interest on shareholder loan | **1,595** | - |
| Stock-based compensation | **605** | (31,408) |
| Impairment of equipment | **-** | 2,468,709 |
| Expenses settled through issuance of shares | **-** | 31,644 |
| Gain on sale of equipment | **-** | (19,313) |
| Amortization | **-** | 24,362 |
| Changes in non-cash working capital balances: | | |
| Accounts payable and accrued liabilities | **231,474** | 306,390 |
| Asset retirement obligation | **91,819** | - |
| Prepaid expenses | **6,417** | 64,885 |
| Amounts receivable | **(3,177)** | 30,573 |
| Non-operating income: | | |
| Interest income | **(194)** | (108) |
| **Net cash used in operating activities** | **(77,182)** | (494,035) |
| **CASH FLOWS (USED IN) FROM INVESTING ACTIVITIES** | | |
| (Increase) decrease in reclamation deposit | **(3,376)** | 142,757 |
| Interest income | **194** | 108 |
| Proceeds from sale of equipment | **-** | 26,460 |
| **Net cash (used in) from investing activities** | **(3,182)** | 169,325 |
| **CASH FLOWS (USED IN) FROM FINANCING ACTIVITIES** | | |
| Proceeds from issuance of shares, net of issuance costs | **(922)** | 202,345 |
| Subscription funds received, net of issuance costs | **-** | 64,184 |
| **Net cash (used in) from financing activities** | **(922)** | 266,529 |
| **Change in cash for the period** | **(81,286)** | (58,181) |
| Effect of exchange rate changes on balance of cash held in foreign currencies | **(1,061)** | (3,125) |
| **Cash, beginning of period** | **180,076** | 78,413 |
| **Cash, end of period** | **97,729** | 17,107 |

**Supplemental Cash Flow Information**

*Non-cash financing activities*

During the nine months ended September 30, 2016, the company issued common shares valued at $16,000 as payment for consulting services.

During the nine months ended September 30, 2015, the company issued shares valued at $93,648 to settle accounts payable and accrued liabilities. Additionally, the company incurred $245 in non-cash share issuance costs for the period.

## 1. NATURE OF OPERATIONS

American Vanadium Corp. (the “Company”) is the Master Sales Agent in North America for the CellCube vanadium redox flow energy system (“CellCube”), produced by Gildemeister Energy Solutions GmbH (“GES”) of Germany. The CellCube is a vanadium flow battery capable of delivering long-duration energy storage. The market for commercial energy storage is in an early stage and the Company has not completed any sales to date. As a result of the lack of sales and a working capital deficiency, the Company is no longer actively marketing the CellCube and is focusing on settling its liabilities with GES and reorganizing its commercial activities.

In addition to marketing CellCube units, the Company has held claims in the Gibellini Property (“Gibellini”), a vanadium deposit located in Eureka County, Nevada, which the Company was in the process of permitting. As a result of significant financial constraints, the Company was unable to renew a significant number of leased claims for Gibellini in March 2016 and it has no intention to renew its remaining claims which expire during the remainder of 2016.

As a result of exploration, evaluation and permitting costs incurred on Gibellini, costs incurred to market the CellCube and general and administrative costs, the Company has historically incurred net losses. In recent years, the Company has not been able to raise sufficient financing to sustain its operations, which has resulted in a working capital deficiency (Note 2).

The Company is incorporated under the *Canada Business Corporations Act* and its principal place of business is Suite #1703, 595 Burrard St., Vancouver, British Columbia, Canada. The Company’s shares trade on the TSX-Venture Exchange (the “Exchange”) under the symbol “AVC”.

## 2. BASIS OF PRESENTATION AND CONTINUANCE OF OPERATIONS

### Statement of compliance

These unaudited condensed consolidated interim financial statements, including comparative periods, have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”) and in accordance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting”. These financial statements should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2015.

Significant accounting policies and the applicable basis of measurement used in the preparation of these unaudited condensed consolidated interim financial statements are described in Note 3.

These consolidated financial statements were approved by the Board of Directors on November 22, 2016.

### Going concern

These unaudited condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue on a going concern basis. However, the Company has consistently incurred losses and negative operating cash flows since its incorporation and, as at September 30, 2016, the Company had a working capital deficit of $5,574,449 (December 31, 2015 - $5,344,718) and had a shareholders’ deficiency of $5,533,687 (December 31, 2015 - $5,307,332). Without operating cash flows, the Company will be required to raise additional financing to sustain its operations.

Historically, the Company has accessed equity markets for financing, but in 2015 the Company was unable to raise the amounts required to fund its operations and, as a result, it curtailed its operating activities. In light of the Company’s current financial position and challenging access to capital, there can be no assurance that the Company will be able raise additional funds, in which case the Company may be unable to meet its financial obligations. These material uncertainties cast significant doubt upon the Company's ability to continue as a going concern.

The consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

## 3. SIGNIFICANT ACCOUNTING POLICIES

Except for the mandatory adoption of new IFRS, which are described under the heading "Adoption of new IFRS", these unaudited condensed consolidated interim financial statements have been prepared according to the same accounting policies and are subject to the same areas of judgment, measurement estimates and uncertainties as those disclosed in Note 3 of the Company's audited consolidated financial statements for the year ended December 31, 2015.

### Basis of consolidation

These unaudited condensed consolidated interim financial statements include the balances and results of the Company and those entities over which the Company exercises control. Control is achieved where the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain the benefits from its operations.

These unaudited condensed consolidated interim financial statements include the assets, liabilities, income and expenses of the Company and its wholly-owned U.S. subsidiary, American Vanadium US Inc. All intercompany transactions and balances have been eliminated on consolidation. Unless otherwise indicated, all amounts are reported in Canadian dollars.

### Basis of measurement and presentation currency

The balances in these unaudited condensed consolidated interim financial statements are prepared using the accrual basis of accounting and have been measured on a historical cost basis, except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company and American Vanadium US Inc.

### Adoption of new IFRS

The Company has applied the following new IFRS amendment starting January 1, 2016:

i. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations

IFRS 5 was amended to add specific guidance for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The adoption of this standard did not result in changes to amounts or note disclosures previously reported by the Company.

**Future changes in accounting policies**

The following are new and revised accounting pronouncements that have been issued, but are not yet effective for the year beginning January 1, 2016:

i. IAS 7, Statement of Cash Flows

Amendments to IAS 7 require disclosures that enable financial statement users to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments are effective for annual periods beginning on or after January 1, 2017.

ii. IFRS 9, Financial Instruments

The IASB intends to replace IAS 39 – "*Financial Instruments: Recognition and Measurement*" in its entirety with IFRS 9 in three main phases. IFRS 9 will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. IFRS 9 requires that all financial assets be classified and subsequently measured at amortized cost or at fair value based on the Company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. IFRS 9 can currently be adopted voluntarily, but is mandatory for years beginning on or after January 1, 2018.

iii. IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2017, with early adoption permitted.

iv. IFRS 16, Leases

In January 2016, the IASB issued IFRS 16 Leases which replaces the previous leases standard, IAS 17 Leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessors continue to classify leases as operating leases or finance leases, and account for those two types of leases differently. IFRS 16 is effective for periods beginning on or after January 1, 2019.

Management has determined that the application of these pronouncements is not expected to have a significant impact on the Company's financial statements.

## 4. PREPAID EXPENSES

| | $ |
|---|---|
| Balance, December 31, 2014 | 131,459 |
| Net change in expense advances and rental and other deposits | (125,042) |
| Balance, December 31, 2015 | 6,417 |
| Net change in expense advances and rental and other deposits | (6,417) |
| **Balance, September 30, 2016** | **-** |

Historically, the Company's balance of prepaid expenses typically included premiums on insurance policies and deposits for rented offices. During the year ended December 31, 2015 and the nine months ended September 30, 2016, the Company has not renewed these insurance policies and has terminated its office lease. As a result, the prepaid expense balance has declined throughout these periods as expenses were incurred or deposits refunded and as at September 30, 2016 no prepaid expense balance remains.

## 5. EQUIPMENT AND DEPOSITS ON EQUIPMENT

As at September 30, 2016, the Company has paid a total of $538,804 (December 31, 2015 - $538,804) and accrued an additional $3,010,100 (December 31, 2015 - $3,096,501) in non-refundable instalments towards CellCube units which were to be held by the Company for demonstration purposes, with the possibility of future resale as inventory, or as prepayments on future sales. As a result of insufficient capital to complete these demonstration projects and to meet final instalment payments required on the CellCube units, the Company has impaired the full carrying value of these payments or accrued deposits, recording a $2,468,709 charge in the nine months ended September 30, 2015. All other remaining related impairments were recorded prior to 2015.

As of September 30, 2016, the Company has negotiated two agreements with GES by which it will be discharged from a significant portion of its remaining obligations in exchange for the return of certain CellCube units and the fulfilment of other conditions. As at September 30, 2016 the Company was still in the process of fulfilling these conditions, so no recoveries from discharge have been recognized.

In addition to the purchase of the CellCube units themselves, the Company has incurred $41,046 in related CellCube shipping and storage costs for the nine months ended September 30, 2016 (September 30, 2015 - $nil), net of a $718 recovery for such charges. The Company is seeking to recover additional shipping and storage costs incurred, but no provision for recovery has been established as at September 30, 2016.

## 6. MINERAL PROPERTIES

### Summary of properties

a) Gibellini Property, Nevada, U.S.

In March 2006, the Company entered into a Mineral Lease Agreement to acquire certain unpatented lode mining claims. Since March 2006 the Company has paid US$1,080,000 in accumulated lease payments and owes an additional US$120,000 for the four final lease payments owing under the agreement and which is included in accounts payable and accrued liabilities as at September 30, 2016.

In December 2006, the Company entered into a Mineral Lease Agreement to acquire additional unpatented lode mining claims. Since December 2006, the Company has paid US$167,000 in accumulated lease payments and owes US$24,000 for one lease payment, which is included in accounts payable and accrued liabilities as at September 30, 2016. The lease agreement expires in December 2016 and the Company has no intention to renew it.

In addition to leased claims, the Company had staked certain unpatented lode claims and placer claims. During the year ended December 31, 2015, the Company allowed certain of those claims considered non-core to lapse. The Company did not renew its remaining staked claims which expired on August 31, 2016.

b) Del Rio Property, Nevada, U.S.

In 2010, the Company acquired a number of claims through the staking process. During the year ended December 31, 2015, the Company allowed certain non-core claims to lapse and its remaining claims lapsed on August 31, 2016.

c) Hot Creek Property, Nevada, U.S.

In 2010, the Company acquired certain claims through the staking process. During the year ended December 31, 2015, the Company allowed all of its Hot Creek claims to lapse.

**Acquisition costs**

As at September 30, 2016 and prior periods, the carrying values of mineral properties were comprised solely of capitalized acquisition costs for mineral and related water rights.

| | **Gibellini** | **Del Rio** | **Hot Creek** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| As at December 31, 2014 | 41,635 | - | - | 41,635 |
| Additions | 253,201 | - | - | 253,201 |
| Impairment of mineral properties | (294,835) | - | - | (294,835) |
| **As at December 31, 2015 and September 30, 2016** | **1** | **-** | **-** | **1** |

*Impairment of mineral properties*

Coupled with adverse financing conditions, which have led to reductions in exploration activities on the Company's mineral properties, market prices for vanadium have persisted at lower levels than those required for commercial production. Additionally, the Company does not have sufficient capital to fund metallurgical, permitting and other property initiatives and has allowed some claims to lapse. As a result, the Company has recorded impairments to its properties, including an impairment of $294,835 for the year ended December 31, 2015, reducing the carrying value of its mineral properties to $1 as at September 30, 2016 (December 31, 2015 - $1).

**Exploration and evaluation expenses**

During the nine months ended September 30, 2016, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

| | **Gibellini** | **Del Rio** | **Hot Creek** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| Reclamation | 91,763 | - | - | 91,763 |
| Environmental permitting recovery | (84,197) | - | - | (84,198) |
| Property maintenance | 6,771 | - | - | 6,771 |
| General | 340 | - | - | 340 |
| | **14,677** | **-** | **-** | **14,677** |

During this period, the Company recognized a $91,763 reclamation charge, which is further discussed under "Asset retirement obligation and reclamation expense" herein. Additionally, upon formal termination of permitting process on Gibellini, the Company was refunded $84,197 by a mining regulator, which had previously been paid by the Company to offset permitting costs incurred by the regulator. These costs had previously been expensed by the Company and, consequently, a gain was recorded on the refund received.

During the nine months ended September 30, 2015, exploration and evaluation expenses incurred on the Company's mineral properties were as follows:

| | Gibellini | Del Rio | Hot Creek | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Property maintenance | 110,302 | 2,835 | - | 113,137 |
| Metallurgy | 54,807 | - | - | 54,807 |
| Labour and benefits | 42,826 | - | - | 42,826 |
| Feasibility study | 32,794 | - | - | 32,794 |
| Environmental permitting | 28,690 | - | - | 28,690 |
| General | 16,090 | - | - | 16,090 |
| Satellite office | 10,925 | - | - | 10,925 |
| | **296,434** | **2,835** | **-** | **299,269** |

**Asset retirement obligation and reclamation expense**

During the nine months ended September 30, 2016, the Company has allowed many of its mineral leases to lapse, and will allow all remaining leases to lapse in December 2016. However, the Company is responsible for reclaiming water testing holes that were drilled and other surface disturbances that occurred while the Company held the leases.

The Company estimates that this work will cost US$70,000 and a $91,763 reclamation expense has been recorded as a component of exploration and evaluation expenses for the nine months ended September 30, 2016. As at September 30, 2016, the related asset retirement obligation, which is affected by foreign exchange fluctuations, was $91,819. Because it is anticipated that this work will be conducted within the next 12 months, the asset retirement obligation is based on current cost estimates and has not been adjusted for inflation or discounting of cash flows.

As at September 30, 2016, the Company has $40,761 in reclamation deposits posted with environmental regulatory agencies that will be refunded upon approval of the required reclamation.

## 7. SHAREHOLDER LOAN

In December 2015, the Company received $200,000 from a shareholder of the Company under a promissory note that is payable on demand and which accrues interest at a rate of 1% per annum.

## 8. SHAREHOLDERS' DEFICIENCY

### Share capital

*Authorized*

Unlimited number of common voting shares with no par value.

*Issued and outstanding*

| | Number of Common Shares | Amount |
|---|---|---|
| | | $ |
| Outstanding, December 31, 2014 | 63,863,998 | 30,100,545 |
| Issued through private placements, net of share issuance costs | 3,014,285 | 202,100 |
| Issued to settle accounts payable and for mineral property claims | 1,337,830 | 93,648 |
| Issued on contract termination | 30,000 | 2,400 |
| Outstanding, December 31, 2015 | 68,246,113 | 30,398,693 |
| Issued through private placements, net of share issuance costs | 805,332 | 63,505 |
| Shares issued pursuant to consulting agreement | 200,000 | 16,000 |
| **Outstanding, September 30, 2016** | **69,251,445** | **30,478,198** |

*Private placements*

On April 23, 2015, the Company completed a non-brokered private placement of 3,014,285 common share units at a price of $0.07 per unit for gross proceeds of $211,000. Each unit consists of one common share and one-half of one common share purchase warrant. The full value of these units is attributed to the value of the common shares. Each whole common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.12 until April 23, 2016. An additional 15,000 agent's warrants were issued as part of this private placement with a fair value of $245. Transaction costs for the private placement, which include cash commissions, and legal and other fees, totalled $8,655.

In April and May 2015, the Company issued 30,000 shares valued at $2,400 ($0.08 per share) to a consultant on the termination of a consulting agreement and settled $93,648 in accounts payable and outstanding mineral leases through the issuance of 1,337,830 shares at a fair value of $0.07 per share.

On January 20, 2016, the Company completed a non-brokered private placement of 805,332 common share units at a price of $0.08 per unit for gross proceeds of $64,427. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase an additional common share at a price of $0.10 until January 20, 2018. Transaction costs for the private placement, which include filing and other fees, totalled $922.

In January 2016, the Company issued 200,000 shares valued at $16,000 to a consultant as remuneration for consulting services.

*Restricted share units ("RSUs")*

The Company has an RSU plan allowing the Board of Directors of the Company, at its discretion and in accordance with the requirements of the Exchange, to grant to directors, officers, employees and consultants to the Company, non-transferable RSUs. Upon meeting certain operational milestones or other vesting conditions, the RSUs will be exchanged for common shares in the Company for the recipient's benefit. RSUs will expire three years from grant if performance-based vesting conditions are not met.

The maximum number of RSUs that can be issued under the RSU plan is 3,500,000 and the combined maximum number of common shares issuable under the RSU and stock options plans shall not exceed a rolling 10% of the Company's issued and outstanding number of common shares. The Company may grant, subject to Exchange approval, compensatory shares or RSUs outside the RSU plan, which may have different characteristics than those permitted by the plan.

As at December 31, 2014, the Company had 200,000 RSUs outstanding under the RSU plan, none of which had vested. In the year ended December 31, 2015, these RSUs were cancelled upon the termination of the related employment agreement. Consequently, no RSUs are outstanding as at September 30, 2016.

*Bonus and performance shares*

Subject to any required shareholder or regulatory approvals, the Company may, outside the RSU plan, grant bonus or performance shares to employees or consultants. These shares may be issued unconditionally ("Bonus Shares"), or may be issued subject to meeting certain performance or retention criteria ("Performance Shares"). For Bonus Shares, an expense is recorded in stock-based compensation on their grant date for the prevailing fair market value of the shares. For Performance Shares, an expense is recorded in share-based compensation for the grant date fair market value those shares expected to be earned, which is recognized rateably over their anticipated vesting period. The expense recognized for Performance Shares and Bonus Shares results in a corresponding increase to the Company's equity reserves, which is then reclassified to share capital on actual issuance of the related earned shares.

Changes to the balances of Bonus and Performance Shares are as follows:

| | **Number of Shares** |
|---|---|
| Outstanding, December 31, 2014 | 750,000 |
| Share awards cancelled | (750,000) |
| **Outstanding, December 31, 2015 and September 30, 2016** | **-** |

During the year ended December 31, 2015, all 750,000 Performance Shares outstanding as at December 31, 2014 were cancelled upon the termination of certain employment and consulting agreement. As a result, the Company recorded a reversal $105,637 of stock-based compensation expenses previously recorded for these Performance Shares in the year ended December 31, 2015.

**Warrants**

The Company has granted warrants on a stand-alone basis as compensation to agents who have facilitated Company financings, as well as components to share units sold to equity investors.

Changes to the balance of warrants outstanding are as follows:

| | Number of Warrants | Weighted Average Exercise Price | Weighted Average Fair Value |
|---|---|---|---|
| | | $ | $ |
| Outstanding, December 31, 2014 | 14,000,475 | 0.66 | 0.00 |
| Warrants expired | (5,869,900) | 0.80 | 0.01 |
| Warrants issued as part of common share units | 1,507,143 | 0.12 | 0.00 |
| Warrants issued as agents' and finders' fees | 15,000 | 0.12 | 0.00 |
| Outstanding, December 31, 2015 | 9,652,718 | 0.49 | 0.00 |
| Warrants expired | (7,865,518) | 0.51 | 0.00 |
| Warrants issued as part of common share units | 805,332 | 0.10 | 0.00 |
| **Outstanding, September 30, 2016** | **2,592,532** | **0.31** | **0.00** |

The fair value of agent's and finder's warrants issued on a stand-alone basis is determined using the Black-Scholes option-pricing model. Inputs to the Black-Scholes model for these warrants are as follows:

| | **For the nine months ended September 30, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Risk-free interest rate | - | 0.66% |
| Dividend yield | - | 0% |
| Expected stock price volatility | - | 92.36% |
| Expected life | - | 1.00 year |

The following warrants were outstanding and exercisable as at September 30, 2016:

| **Expiry date** | **Exercise Price** | **Number of Warrants Outstanding and Exercisable** |
|---|---|---|
| | $ | |
| December 30, 2016 | 0.40 | 1,787,200 |
| January 20, 2018 | 0.10 | 805,332 |
| | | **2,592,532** |

*Stock options*

The Company adopted an incentive stock option plan which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the requirements of the Exchange, grant to directors, officers, employees and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares. Such options will be exercisable for a period of up to five years from the date of grant. Vesting terms are determined by the Board of Directors at the time of grant.

In the nine months ended September 30, 2016, the Company has suspended its stock option plan, although stock options already granted will remain unaffected.

During the nine months ended September 30, 2016, the Company recorded $605 in stock-based compensation expense for the value of stock options vesting in the period. An offsetting amount has been recorded in equity reserves.

Stock option transactions and the number of stock options outstanding are summarized as follows:

| | Number of Stock Options | Weighted Average Exercise Price | Weighted Average Fair Value |
|---|---|---|---|
| | | $ | $ |
| Outstanding, December 31, 2014 | 4,212,500 | 0.62 | 0.33 |
| Options granted | 3,102,500 | 0.10 | 0.02 |
| Options expired | (1,065,000) | 0.42 | 0.31 |
| Options cancelled or forfeited | (2,495,000) | 0.64 | 0.35 |
| Outstanding, December 31, 2015 | 3,755,000 | 0.24 | 0.09 |
| Options cancelled or forfeited | (532,500) | 0.10 | 0.03 |
| **Outstanding, September 30, 2016** | **3,222,500** | **0.26** | **0.10** |

The fair values of the stock options granted were estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for these options are as follows:

| | **For the nine months ended September 30, 2016** | For the year ended December 31, 2015 |
|---|---|---|
| Risk-free interest rate | - | 0.66% |
| Dividend yield | - | 0% |
| Expected stock price volatility | - | 92.36% |
| Expected forfeiture rate | - | 1.00 year |
| Expected life | - | 0.66% |

The following incentive stock options were outstanding and exercisable at September 30, 2016:

| Expiry date | Exercise Price | Number of Options Outstanding | Number of Options Exercisable |
|---|---|---|---|
| | $ | | |
| October 12, 2016* | 0.10 | 400,000 | 400,000 |
| October 12, 2016* | 0.60 | 450,000 | 450,000 |
| February 6, 2017 | 0.77 | 40,000 | 40,000 |
| June 15, 2017 | 0.74 | 100,000 | 100,000 |
| November 4, 2018 | 0.10 | 20,000 | 20,000 |
| November 4, 2018 | 0.60 | 395,000 | 395,000 |
| December 2, 2018 | 0.10 | 40,000 | 40,000 |
| April 29, 2019 | 0.10 | 110,000 | 110,000 |
| April 16, 2020 | 0.10 | 1,647,500 | 1,647,500 |
| May 6, 2020 | 0.10 | 20,000 | 20,000 |
| | | **3,222,500** | **3,222,500** |

* Subsequent to September 30, 2016, these options expired, unexercised.

## 9. RELATED PARTY TRANSACTIONS

During the nine months ended September 30, 2016, a $39,975 (2015 - $58,500) expense was recorded for office facilities, corporate and administrative services provided by Earlston Management Corp. ("Earlston"), a company that provides key management services to the Company. As at September 30, 2016, $142,280 is included in accounts payable and accrued liabilities (December 31, 2015 - $96,445) for amounts owing to Earlston.

Included in accounts payable and accrued liabilities as at September 30, 2016 is $295,000 (December 31, 2015 - $145,000) owing to Bill Radvak, the Chief Executive Officer of the Company for salaries and benefits, and $5,211 (December 31, 2015 - $20,371) for travel expense claims.

## 10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As at September 30, 2016, the Company's financial instruments comprise cash, amounts receivable, reclamation deposits, accounts payable and accrued liabilities, and a shareholder loan. With the exception of cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values. The levels of the fair value hierarchy are as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| | $ | $ | $ |
| Cash | 97,729 | - | - |

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

*Currency risk*

A portion of the Company's expenses are incurred in U.S. dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the U.S. dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

As at September 30, 2016, the Company's net financial liabilities included accounts held in U.S. dollars totalling US$1,320,401. A prolonged 10% increase (decrease) in the value of the Canadian dollar compared with the U.S dollar would result in a $173,197 foreign exchange gain (loss) based on U.S. dollar denominated net financial liabilities as at September 30, 2016.

As at September 30, 2016, the Company's net financial liabilities included accounts held in European Euros totalling 2,041,992 Euros. A prolonged 10% increase (decrease) in the value of the Canadian dollar compared with the Euro would result in a $301,010 foreign exchange gain (loss) based on European euro denominated net financial liabilities as at September 30, 2016. The Company has not hedged its exposure to currency fluctuations.

*Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and amounts receivable. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

*Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company has a working capital deficiency as at September 30, 2016 and additional financing is required for the Company to settle its existing obligations and fund future obligations. As such, the Company is exposed to liquidity risk.

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

## 11. CAPITAL MANAGEMENT

The Company manages its capital, which comprises the components of shareholders' deficiency, and makes adjustments to it, based on the funds available to the Company and operational requirements. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

Although the Company has made operational changes, including headcount reductions and reductions to property claims to reduce its expenditures, the Company will require additional financing to settle outstanding debt and to maintain operations as a publicly-listed entity. The Company is not subject to externally imposed capital requirements.

## 12. LOSS PER SHARE

The numerators and denominators of basic and diluted loss per share for the three and nine months ended September 30, 2016 and 2015 are as follows:

| | **Three Months Ended** | | **Nine Months Ended** | |
|---|---|---|---|---|
| | **September 30 2016** | September 30 2015 | **September 30 2016** | September 30 2015 |
| Net loss - numerator | **$(183,931)** | $(2,652,641) | **$(242,038)** | $(3,452,071) |
| Basic and diluted weighted average number of common shares outstanding - denominator | **69,251,445** | 68,246,113 | **69,178,063** | 66,334,591 |
| Basic and diluted loss per share | **$(0.00)** | $(0.04) | **$(0.00)** | $(0.05) |